

### Summary:

## Leeds, Alabama; General Obligation

#### Primary Credit Analyst:

Jim Tchou, New York (1) 212-438-3821; jim\_tchou@standardandpoors.com

#### Secondary Contact:

Edward R McGlade, New York (1) 212-438-2061; edward\_mcglade@standardandpoors.com

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## Summary:

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Credit Profile		
US\$6.33 mil go warrants ser 2011A dtd 11/01/2011 due 11/01/2036		
Long Term Rating	A+/Stable	New
US\$3.12 mil GO warrants ser 2011B dtd 11/01/2011 due 11/01/2036		
Long Term Rating	A+/Stable	New

## Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating and stable outlook to Leeds, Ala.'s series 2011A and 2011B general obligation (GO) warrants.

The rating reflects our assessment of the city's:

- Easy access to the broad and diverse Birmingham economic base;
- Good income and, what we consider, strong wealth; and
- Historically very strong fund balances, supported by, what we view as, good financial practices.

We believe what we consider the city's moderately high debt, based on market value, and elevated carrying charges somewhat weaken these strengths.

The city's full-faith-and-credit pledge secures the warrants. Officials intend to use warrant proceeds to refinance the city's series 2006C warrants and series 2010 warrants, along with financing some street and drainage improvements.

Leeds, with a population estimate of 11,773, is primarily a residential community about 10 miles north of downtown Birmingham ('AA' GO debt rating). Portions of the city are in Jefferson, St. Clair, and Shelby counties. The city has three major draws that attract more than 2.5 million visitors annually:

- Barber Motor Speedway and Museum,
- Grand River Shopping Center, and
- Bass Pro Shops.

Leading city employers include:

- The Shops at Grand River (400 employees), retail outlet stores;
- Wal-Mart Stores Inc. (400);
- Bass Pro Shops (235);
- Hubbell Power Systems (225), electrical; and
- Lowe's (175).

Birmingham-Hoover metropolitan statistical area unemployment, as of July 2011, was on par with the nation's 9.3%. City income is, in our opinion, good: Per capita effective buying income is 101% of the nation's average while median household effective buying income is a slightly lower 95%. The property tax base has grown by an

aggregate 25% over the past four years to \$147 million in fiscal 2011, or roughly \$735 million in market value, due primarily to the opening of Bass Pro in 2009. Market value, a wealth indicator, is, in our opinion, a strong \$62,462 per capita.

Leeds has maintained, what we consider, very strong finances over the past three audited fiscal years, supported by stable revenue streams. Management has adopted a balanced budget for fiscal 2012. It conservatively budgeted for slightly lower sales tax revenue than collected in fiscal 2011. Officials also estimate the city will add about \$1.9 million to general fund balance at fiscal year-end 2011 since actual expenditures trended 80% below the budget. In fiscal 2010, the unreserved general fund balance totaled \$7.3 million, or, in our opinion, a very strong 78% of expenditures. General sales and lodging taxes generated 58% of general revenue in fiscal 2010 while licenses and permits generated 12% and property taxes accounted for 7%.

Standard & Poor's considers Leeds' financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Key practices include management's:

- Revenue and expenditure assumptions based, in part, on historical trends;
- Budget amendments performed throughout the year with formal quarterly reports provided to the city council for review;
- Informal financial projections performed three years beyond the budget year;
- Use of an informal rolling five-year capital plan, though it has not yet identified funding sources for all projects;
- Investment practices that follow state guidelines; and
- Goal of maintaining six months' operating reserves, as well as annually budgeting for a \$1.1 million contingency.

Management currently lacks a formal debt management policy, but it adheres to the limits set by the state.

Following this issuance, we view debt as a moderately high 6.2% of market value, or a moderate \$3,857 per capita. Carrying charges are, in our opinion, an elevated 39% of general fund expenditures. Officials are contemplating refinancing the series 2006B GO warrants, but they have yet to decide on the timing of such a refinancing.

Leeds participates in the Alabama Employees' Retirement System, an agent multiple-employer public retirement system. State statute specifies the contribution rate, determined by an actuarial method. The city met its required contribution from fiscal years 2006-2009 in full. In fiscal 2009, the annual pension cost was \$381,102, or 2.2% of expenditures. As of Sept. 30, 2009, the most recent actuarial valuation, the plan was 74.4% funded. The city does not offer retirees health care coverage, so it does not have to contend with an other postemployment benefits liability.

## Outlook

The stable outlook reflects Standard & Poor's opinion that management will likely maintain, what Standard & Poor's considers, its very strong finances. We do not think we will change the rating within the stable outlook's two-year period because we believe management will likely continue to make proactive budgetary adjustments, as needed, in light of its reliance on sales tax revenue, which could fluctuate depending on economic conditions, as a key revenue source for operations. Due to management's preference to address capital needs through pay-as-you-go financing, it is also our opinion that the city's already moderately high debt should see significant increases.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

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